

# AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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**LARRY WALKER**  
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County Clerk

**ELIZABETH A. STARBUCK, CGFM**  
Assistant Auditor/Controller-Recorder  
Assistant County Clerk

**January 30, 2009**

**Jeffrey Rigney, Director**  
Special Districts Department  
157 W. Fifth Street, 2<sup>nd</sup> Floor  
San Bernardino, CA 92415-0450

**Subject: MANAGEMENT LETTER – COUNTY SERVICE AREA NO. 70 – CEDAR GLEN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

We have completed an audit of the County Service Area No. 70 – Cedar Glen (District) Enterprise Fund, for the fiscal year ended June 30, 2008 and have issued our report thereon dated January 30, 2009. In planning and performing our audit of the financial statements of the District Enterprise Fund as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control that we consider to be significant deficiency and another deficiency that we consider to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

We believe that the following deficiency constitutes a significant deficiency:

**Significant Deficiency # 1 – Necessary year-end accrual was not recorded.**

The accrual basis of accounting should be used by this District, in accordance with Generally Accepted Accounting Principles (GAAP). Under this basis, revenues are recognized when earned and expenses are recognized when a liability is incurred,

regardless of the timing of related cash flows. Preparing year-end accruals provides more accurate and reliable financial information that is useful in the decision making process over the District's operations. During our audit, we noted an invoice for professional services that was not accrued as accounts payable at year end. Not properly accounting for necessary year-end accruals can potentially have a material effect on the financial statements.

**Recommendation:**

We recommend that the District become more familiar with the year-end closing manual provided by the General Accounting Section of the Auditor/Controller-Recorder to ensure all appropriate year-end accruals are being made and included in the District's year-end accrual package. Follow the instructions in the manual and ask for guidance from General Accounting if needed. If invoices are not available from a vendor by the accrual package deadline, obtaining estimates from the vendor for services provided through June 30<sup>th</sup> is acceptable. Additionally, in the event that material items are found after the deadline for the accrual package, the District should notify the Auditor of the possible need for an audit adjustment.

**Management's Response:**

Following year-end accruals each year, Special Districts Department (SDD) Fiscal Section will compare incoming invoices that indicate prior year services or materials with accrual packet(s) to ensure proper accrual was submitted. If the invoice should have been accrued but was not, SDD will immediately inform the Auditor's Office. This will be in cases of material amounts – and will most likely have to do with construction contracts.

This Management letter will be provided to the Fiscal Section where it will be kept on file, and will be reviewed each year as part of closing process to ensure continued compliance.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

**Material Weakness # 1 – Year-end accrual for grant was not recorded.**

Governmental Accounting Standards Board (GASB) Statement No. 33 requires a receivable and revenue be recognized once all applicable eligibility requirements for a grant have been met. For a 'reimbursement-type' grant, eligibility requirements are met once allowable costs are incurred. Due to the District not being aware of the GASB 33 requirements, a receivable of approximately \$495,000 was not accrued at year-end and an audit adjustment was necessary. This amount represents expenditures incurred by the District as of June 30, 2008 and eligible for reimbursement from their Community Development Block Grant (CDBG). The District did not submit a request for reimbursement for their CDBG until 11/12/08 for services incurred from 10/29/07 through 11/12/08. Not properly accounting for necessary year-end accruals can potentially have a material effect on the financial statements. In addition, interest earned on money deposited with the County Treasurer is lost by not submitting timely requests for reimbursement from grants.

**Recommendation:**

We recommend that the District become familiar with GASB 33 requirements and ensure any outstanding reimbursements and expenditures incurred but not submitted for reimbursement are accrued as a receivable at year-end. Additionally, we recommend that the District submit their CDBG request for reimbursement more timely. This will ensure that the District does not lose interest revenue and make accounting for the grant at fiscal year-end easier.

**Management's Response:**

SDD will submit reimbursement claims at least quarterly. As part of the closing process, SDD Fiscal Section and Engineering Division will meet and review reimbursement grant expenses that were incurred throughout the last fiscal year. If the expenses have been claimed but not reimbursed, or if they have not been claimed yet, they will be considered receivable at 6/30 and will be accrued as due in. The accrual (due in) will be coordinated with the granting department as appropriate.

This Management letter will be provided to the Fiscal Section and Engineering Division where it will be kept on file, and will be reviewed each year as part of closing process to ensure continued compliance.

This communication is intended solely for the information and use of management, the Audit Committee, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

**Larry Walker**  
Auditor/Controller-Recorder

By: \_\_\_\_\_

**Howard M. Ochi**  
Chief Deputy Auditor

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LDW:HMO:RRB:mah